

Annual Report

GUOTAI JUNAN INVESTMENT FUNDS

- GUOTAI JUNAN GREATER CHINA GROWTH FUND
- GUOTAI JUNAN EQUITY INCOME FUND

31 December 2018

(A unit trust constituted by a Trust Deed dated  
29 August 2007 under the laws of Hong Kong)



**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**GUOTAI JUNAN INVESTMENT FUNDS**

-GUOTAI JUNAN GREATER CHINA GROWTH FUND

-GUOTAI JUNAN EQUITY INCOME FUND

FOR THE YEAR ENDED 31 DECEMBER 2018

**ADMINISTRATION AND MANAGEMENT****Investment Manager**

Guotai Junan Assets (Asia) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

**Directors of the Manager**

YIM Fung  
QI Haiying  
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**Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

**Auditor**

Ernst & Young  
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1 Tim Mei Avenue  
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**Legal Adviser**

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18 Chater Road Central  
Hong Kong

**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
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FOR THE YEAR ENDED 31 DECEMBER 2018

**INVESTMENT MANAGER'S REVIEW**

**MARKET REVIEW**

After a remarkably calm period in 2017, global equity markets volatility made a comeback 2018, although global economic growth still solid, inflation modest, and corporate earnings growth robust, the anxiety over rising interest rate and trade disputes between US and China cast doubts and fears on the equity markets.

The year began with enthusiasm for global stock markets, strong corporate earnings and positive economic data helped many indices hit multiple new all-time highs in the first few weeks of 2018, but sentiment shifted quickly, anxiety over rising bond yields was a key driver for an equity market correction in all major markets.

The US job market kept strong and pushing unemployment rate to the lowest level since the financial crisis, inflation was kept at an acceptable level and the FED hiked the interest rate 4 times in 2018, concerns on the hawkish stance of FED may put the economic growth under pressure, US market sold off sharply in the final quarter of the year. S&P 500 decreased by 6.2% for the year of 2018.

For Hong Kong market, Hang Seng Index declined 13.6% in 2018, underperforming most major equity market indexes globally. After making historical high in late January, the worries of trade disputes between US and China sent the market lower with an increased volatility. Although the annual results in March showed a significant improvement in corporate earnings among listed companies in 2017, companies are cautious about the outlook in the coming quarters since the lingering concern on trade policies.

And as the central government keeps on the deleveraging policy, with the newly proposed asset management rules, onshore financial markets are also under tremendous stress due to tighter liquidity control, CSI 300 index declined 25.3% in 2018, the worst annual performance since 2008.



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FOR THE YEAR ENDED 31 DECEMBER 2018

**INVESTMENT MANAGER'S REVIEW (continued)****MARKET OUTLOOK**

We expect that divergence in economic conditions and monetary policies still to be the overarching theme for global economy in 2019. The U.S. economy continues its recovery with the strong job market readings, unemployment rate in U.S. dropped below 4% level, though inflations are not picking up as the FED expected yet. But the FED turned dovish and indicated there might be no more interest rate hikes in 2019. While the other major economies are facing slower economic growth than previously expected, with capital flowing back to the US, the rising USD put pressure on emerging markets currencies and capital outflows present the biggest risk on emerging equity markets.

And there are still a lot of uncertainties on political events that may derail the global economy recovery, particularly the trade dispute between US and China and a potential no-deal Brexit may deteriorate the economic conditions in Europe. We suspect there might be more market volatility down the road for equity investors. With market volatility returning back up to a much higher level from the historical lows set in previous years and staying there for a while longer than we would like.

And for the greater China markets, domestic A shares market is among the worst performed equity markets in 2018, deleveraging and lack of liquidity pressured the market with extreme negative sentiment. However, we expect the central government would release more favorable policies to revive the industrial sectors with the supply side reform such as de-capacity and de-inventory. And we also expect the new economy such as 5G and Internet related service sectors would keep benefitting from the technology upgrades and consumption upgrades.

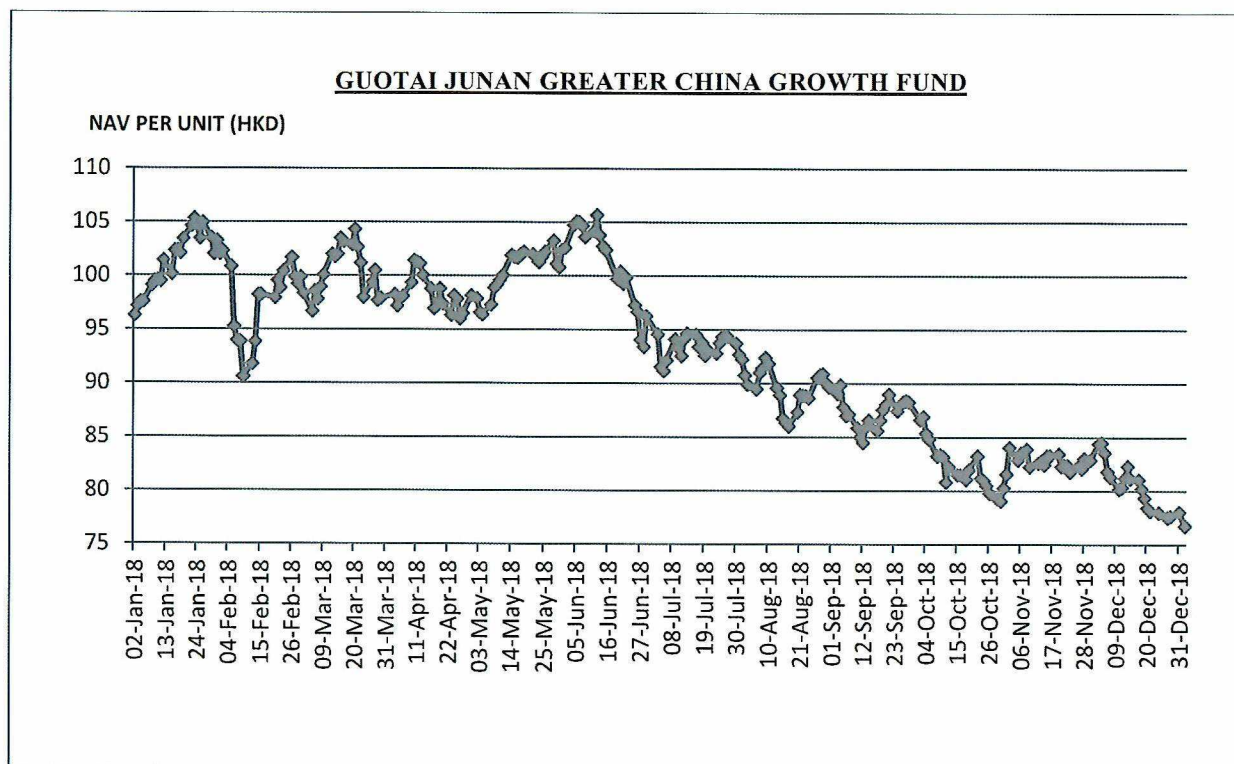
For Hong Kong market, after the roller coaster run in 2018, now Hong Kong market is trading at an attractive valuation level, we expect that a large part of the negativities has already been factored in.

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FOR THE YEAR ENDED 31 DECEMBER 2018

**INVESTMENT MANAGER'S REVIEW (continued)****SUB-FUNDS' PERFORMANCE****A. Guotai Junan Greater China Growth Fund**

Performance table

Index / Fund's Name	Jan - Dec 2018	Since Inception
	Rate of Return (%)*	Rate of Return (%)
Hang Seng China-Affiliated Total Return Index	-2.9%	-2.9%
Taiwan Taixex Total Return Index	-4.8%	69.0%
Hang Seng China Enterprises Total Return Index	-9.9%	-11.0%
Hang Seng Total Return Index	-10.5%	38.8%
MSCI Golden Dragon Total Return Index	-13.8%	34.2%
<b>Guotai Junan Greater China Growth Fund</b>	<b>-16.3%</b>	<b>-19.5%</b>
MSCI China Daily Total Return Index	-18.6%	11.7%

\* Ranked by the total returns of indices or the Fund for Jan - Dec 2018.

## GUOTAI JUNAN INVESTMENT FUNDS

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FOR THE YEAR ENDED 31 DECEMBER 2018

### INVESTMENT MANAGER'S REVIEW (continued)

#### SUB-FUNDS' PERFORMANCE (continued)

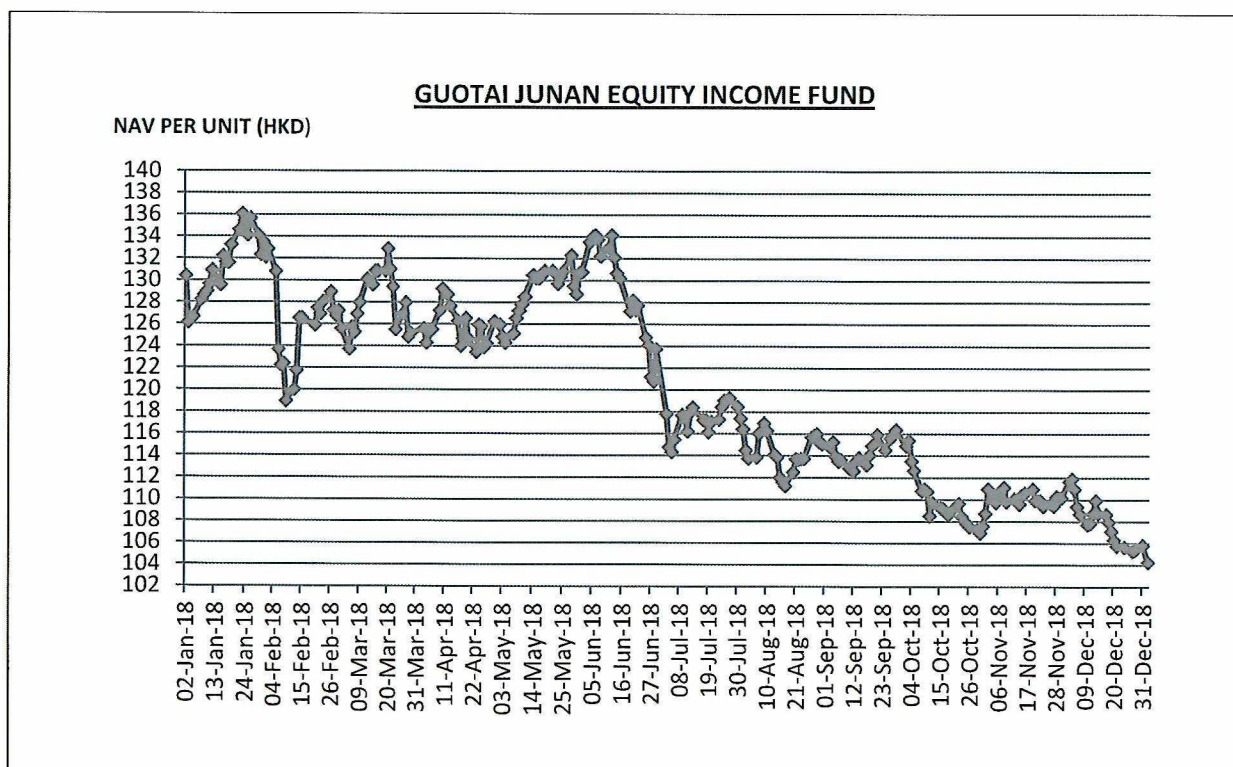
##### A. Guotai Junan Greater China Growth Fund (continued)

The total return of the Guotai Junan Greater China Growth Fund ("GJGC" hereafter) decreased by 16.3% in 2018 and recorded a loss of 19.5% since inception i.e. 19 Nov 2007.

In 2018, GJGC underperformed the total returns of the Hang Seng Index ("HSI") and Hang Seng China Enterprises Index ("HSCEI") by 5.8% and 6.4% respectively. GJGC's portfolio had overweighed China-related consumer discretionary and utilities stocks, which have underperformed the Hang Seng Index constituents.

As of 31 December 2018, GJGC's portfolio was well diversified. Amongst all exposure, financials, utilities and industrials were the top weighed sectors, which made up of 20.32%, 10.82% and 10.80% of the NAV respectively.

##### B. Guotai Junan Equity Income Fund



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**INVESTMENT MANAGER'S REVIEW** (continued)

**SUB-FUNDS' PERFORMANCE** (continued)

**B. Guotai Junan Equity Income Fund** (continued)

Performance table

Index / Fund's Name	Jan - Dec 2018	Since Inception
	Rate of Return (%)*	Rate of Return (%)
Hang Seng China-Affiliated Total Return Index	-2.9%	21.7%
Taiwan TaieX Total Return Index	-4.8%	54.5%
Hang Seng China Enterprises Total Return Index	-9.9%	12.8%
Hang Seng Total Return Index	-10.5%	54.3%
<b>Guotai Junan Equity Income Fund</b>	<b>-10.7%</b>	<b>33.7%</b>
Dow Jones Hong Kong Select Dividend 30 Total Return Index	-11.8%	11.0%
MSCI Golden Dragon Total Return Index	-13.8%	48.6%
MSCI China Daily Total Return Index	-18.6%	38.6%

\* Ranked by the total returns of indices or the Fund for Jan - Dec 2018.

The NAV of the Guotai Junan Equity Income Fund ("GJEI") had a total return of -10.7% in 2018 and recorded a total return of 33.7% since its inception on 29 Feb 2012. GJEI underperformed the total return of the HSI and the HSCEI by 0.1% and 0.7% respectively but outperformed the Dow Jones Hong Kong Select Dividend 30 Index ("DJHKSD") by 1.1%.

We believe the GJEI's strategy of investing in companies with brighter prospect, reasonable valuation, good cash flows and willingness to share profits with shareholders through high dividends, is still sound, but the overweight to China related sectors especially Chinese consumer discretionary and materials contributed to the underperformance to HSI.

As of 31 December 2018, the portfolio of GJEI tilted more exposure to financials, which provided higher dividend yields. Financials and industrials are the top weighted sectors representing 20.08% and 10.89% of the funds' NAV respectively.

**INVESTMENT STRATEGY**

We are conservatively optimistic on companies with good earning visibility and trading at reasonable valuation levels, meanwhile we would remain cautious when the volatility is at an elevated level, stay defensive until good entry level presents itself.

We believe corporate earnings growth is the most important driver of the market performance, sector selection would still be as critical as ever, we believe sectors with strong cash flows, sectors benefit from the technology upgrades and sectors benefit from consumption upgrades would outperform the general market, and we would position ourselves accordingly.



.....  
 Guotai Junan Assets (Asia) Limited

**29 APR 2019**



**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
-GUOTAI JUNAN EQUITY INCOME FUND  
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**REPORT OF THE TRUSTEE**

We hereby confirm that, in our opinion, the Manager of the Trust has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 29 August 2007, as amended.

  
.....  
HSBC Institutional Trust Services (Asia) Limited

**29 APR 2019**



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## Independent auditor's report

To the Manager and the Trustee of  
Guotai Junan Greater China Growth Fund,  
Guotai Junan Equity Income Fund, and  
(collectively, the Sub-Funds of Guotai Junan Investment Funds)  
(A unit trust constituted by a Trust Deed dated 29 August 2007 under the laws of the Hong Kong)

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Guotai Junan Greater China Growth Fund and Guotai Junan Equity Income Fund (sub-funds of Guotai Junan Investment Funds (the "Trust") and referred to collectively as the "Sub-Funds") set out on pages 11 to 40, which comprise the statements of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity, distribution statements and statements of cash flows for the year then ended for Guotai Junan Greater China Growth Fund and Guotai Junan Equity Income Fund, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Guotai Junan Greater China Growth Fund and Guotai Junan Equity Income Fund as at 31 December 2018 and of each of their financial performance and cash flows for the year then ended are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

#### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Sub-Funds in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information included in the Annual Report

The Manager and the Trustee of the Sub-Funds are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements of the Sub-Funds and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Independent Auditor's Report (continued)**

### **Responsibilities of the Manager and the Trustee for the financial statements**

The Manager and the Trustee of the Sub-Funds are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee are responsible for assessing the Sub-Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee either intend to liquidate the Sub-Funds or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 29 August 2007 ("Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds (the "SFC Code") issued by the Hong Kong Securities and Futures Commission.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements have been properly prepared, in all material respect, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee.

## Independent Auditor's Report (continued)

### Auditor's responsibilities for the audit of the financial statements (continued)

- For Guotai Junan Greater China Growth Fund and Guotai Junan Equity Income Fund, conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sub-Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on matters under the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.



Certified Public Accountants  
Hong Kong  
29 APR 2019



**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Guotai Junan Greater China Growth Fund	Guotai Junan Equity Income Fund
		Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$
<b>Income</b>			
Dividend income		1,386,437	9,769,845
Interest income		24,861	73,591
<b>Total income</b>		<u>1,411,298</u>	<u>9,843,436</u>
<b>Expenses</b>			
Trustee fees	3	468,000	468,174
Bank charges		31,899	151,363
Valuation fees		134,965	135,300
Auditor's remuneration		62,250	159,250
Brokerage and handling fees	3	436,755	2,915,277
Management fees	3	996,083	5,594,629
Transaction fees		81,581	285,954
Registrar fees	3	42,340	42,145
Miscellaneous expenses		239,118	288,839
<b>Total expenses</b>		<u>2,492,991</u>	<u>10,040,931</u>
			<u>7,848,870</u>

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**FOR THE YEAR ENDED 31 DECEMBER 2018**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)**

	Guotai Junan Greater China Growth Fund	Guotai Junan Equity Income Fund	Year ended 31 December 2017 HK\$
Note	Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$	Year ended 31 December 2017 HK\$
<b>(Loss)/gain before investment (loss)/ gain and exchange differences</b>	( 1,081,693)	( 1,362,615)	( 197,495)
<b>Investment (loss)/gain and exchange differences</b>			1,392,741
Net unrealised (loss)/gain on investments	( 15,643,732)	11,040,764	( 59,429,881)
Net realised gain on investments	5,347,187	9,019,962	23,036,460
Foreign exchange differences, net	9,289	( 4,310)	12,181
	<u>( 10,287,256)</u>	<u>20,056,416</u>	<u>( 36,381,240)</u>
	( 15,643,732)	( 59,429,881)	67,667,265
	5,347,187	9,019,962	31,889,234
	9,289	( 4,310)	1,563
	<u>( 10,287,256)</u>	<u>20,056,416</u>	<u>99,558,062</u>
<b>(Loss)/profit before tax</b>	( 11,368,949)	18,693,801	100,950,803
Withholding tax	( 49,606)	( 62,885)	( 365,514)
(Loss)/profit for the year	( 11,418,555)	18,630,916	100,585,289
Other comprehensive income for the year, net of tax	-	-	-
<b>Total comprehensive income for the year</b>	<u>( 11,418,555)</u>	<u>18,630,916</u>	<u>( 36,880,312)</u>
	<u>( 11,418,555)</u>	<u>18,630,916</u>	<u>100,585,289</u>


**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
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**FOR THE YEAR ENDED 31 DECEMBER 2018**

**STATEMENT OF FINANCIAL POSITION**

	Notes	Guotai Junan Greater China Growth Fund Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$	Guotai Junan Equity Income Fund Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$
<b>Assets</b>					
Financial assets at fair value through profit or loss	5	44,058,259	74,250,782	283,605,831	336,489,755
Dividend receivables		-	-	14,850	98,613
Due from brokers		5,994,553	-	48,751,748	25,727,092
Interest receivables		134	6	617	32
Cash and bank balances	6	9,799,876	2,314,005	74,970,976	34,644,764
<b>Total assets</b>		<u>59,852,822</u>	<u>76,564,793</u>	<u>407,344,022</u>	<u>396,960,256</u>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	5	-	-	26,200	-
Other payables and accruals		298,415	423,713	732,003	786,254
Due to brokers		634,816	698,044	22,376,207	31,434,239
<b>Total liabilities</b>		<u>933,231</u>	<u>1,121,757</u>	<u>23,134,410</u>	<u>32,220,493</u>
<b>Equity</b>					
Net assets attributable to unitholders		<u>58,919,591</u>	<u>75,443,036</u>	<u>384,209,612</u>	<u>364,739,763</u>
<b>Total liabilities and equity</b>		<u>59,852,822</u>	<u>76,564,793</u>	<u>407,344,022</u>	<u>396,960,256</u>

## STATEMENT OF FINANCIAL POSITION (continued)

	Guotai Junan Greater China Growth Fund	Guotai Junan Equity Income Fund
	Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$
Notes		
Number of units in issue	8	8
	755,062.82	809,075.14
	78.03	93.25
		105.77
Net asset value per unit	9	127.42

  
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**Guotai Junan Assets (Asia) Limited**

.....  
*Adviser*  
*Adrian Kennedy*  
 HSBC Institutional Trust Services (Asia) Limited

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**STATEMENT OF CHANGES IN EQUITY**

Guotai Junan Greater China Growth Fund

	Total equity HK\$
At 1 January 2017	82,806,608
Redemption of units	( 25,994,488)
Total comprehensive income for the year	<u>18,630,916</u>
At 31 December 2017 and 1 January 2018	75,443,036
Redemption of units	( 22,344,655)
Subscription of units	17,239,765
Total comprehensive income for the year	<u>( 11,418,555)</u>
At 31 December 2018	<u><u>58,919,591</u></u>

Guotai Junan Equity Income Fund

	Total equity HK\$
At 1 January 2017	275,798,430
Subscription of units	5,207,686
Redemption of units	( 5,570,669)
Total comprehensive income for the year	100,585,289
Distribution to unitholders	<u>( 11,280,973)</u>
At 31 December 2017 and 1 January 2018	364,739,763
Subscription of units	409,405,555
Redemption of units	(326,352,514)
Total comprehensive income for the year	( 36,880,312)
Distribution to unitholders	<u>( 26,702,880)</u>
At 31 December 2018	<u><u>384,209,612</u></u>

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**DISTRIBUTION STATEMENT**

Guotai Junan Greater China Growth Fund

	Total equity HK\$
Undistributed income at 1 January 2017	-
Total comprehensive income for the year	18,630,916
Less: Net change in unrealised gain on investments	<u>(11,040,764)</u>
Undistributed income before distribution	7,590,152
Transfer to capital	<u>( 7,590,152)</u>
Undistributed income at 31 December 2017 and 1 January 2018	-
Total comprehensive income for the year	( 11,418,555)
Less: Net change in unrealised loss on investments	<u>15,643,732</u>
Undistributed income before distribution	4,225,177
Transfer to capital	<u>( 4,225,177)</u>
Undistributed income at 31 December 2018	<u><u>-</u></u>

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**DISTRIBUTION STATEMENT (continued)**

Guotai Junan Equity Income Fund

	Total equity HK\$
Undistributed income at 1 January 2017	-
Total comprehensive income for the year	100,585,289
Less: Net change in unrealised gain on investments	<u>( 67,667,265)</u>
Undistributed income before distribution	32,918,024
Distributions to unitholders	( 11,280,973)
Transfer to capital	<u>( 21,637,051)</u>
Undistributed income at 31 December 2017 and 1 January 2018	-
Total comprehensive income for the year	( 36,880,312)
Add: Net change in unrealised loss on investments	<u>59,429,881</u>
Undistributed income before distribution	22,549,569
Distributions to unitholders	( 26,702,880)
Transfer to capital	<u>4,153,311</u>
Undistributed income at 31 December 2018	<u><u>-</u></u>

**GUOTAI JUNAN INVESTMENT FUNDS**  
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FOR THE YEAR ENDED 31 DECEMBER 2018

**STATEMENT OF CASH FLOWS**

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$	Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$
<b>Cash flows from operating activities</b>				
(Loss)/profit before tax	( 11,418,555)	18,693,801	( 36,880,312)	100,950,803
Adjustments for:				
Net unrealised loss/(gain) on investments	15,643,732	( 11,040,764)	59,429,881	( 67,667,265)
Net realised gain on investments	( 5,347,187)	( 9,019,962)	( 23,036,460)	( 31,889,234)
Interest income	( 24,861)	( 668)	( 73,591)	( 3,081)
Dividend income	( 1,336,831)	( 1,324,851)	( 9,468,268)	( 9,238,530)
	( 2,483,702)	( 2,692,444)	( 10,028,750)	( 7,847,307)
Payments on purchases of financial assets and liabilities at fair value through profit or loss	(101,338,318)	( 59,142,777)	(727,816,542)	(381,079,956)
Proceeds from disposals of financial assets and liabilities at fair value through profit or loss	121,234,296	78,177,958	744,333,245	368,036,175
Increase in amounts due from brokers	( 5,994,553)	-	( 23,024,656)	( 25,727,092)
(Decrease)/increase in other payables and accruals	( 125,298)	( 24,192)	( 54,251)	130,658
(Decrease)/increase in amounts due to brokers	( 63,228)	698,044	( 9,058,032)	31,434,239
Interest received	24,733	664	73,006	3,063
Dividend received	1,386,437	1,422,651	9,853,608	9,224,256
Withholding tax paid on dividends received	( 49,606)	( 62,885)	( 301,577)	( 365,514)
Net cash flows generated from/ (used in) operating activities	12,590,761	18,377,019	( 16,023,949)	( 6,191,478)



**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
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**STATEMENT OF CASH FLOWS (continued)**

	Guotai Junan Greater China Growth Fund	Guotai Junan Equity Income Fund
	Year ended 31 December 2018 HK\$	Year ended 31 December 2017 HK\$
<b>Cash flows from financing activities</b>		
Proceeds from issue of units	17,239,765	409,405,555
Payments on redemption of units	(22,344,655)	(326,352,514)
Distributions paid	-	(26,702,880)
Net cash flows (used in)/ generated from financing activities	(5,104,890)	56,350,161
<b>Net increase/(decrease) in cash and cash equivalents</b>	7,485,871	40,326,212
Cash and cash equivalents at beginning of the year	2,314,005	34,644,764
<b>Cash and cash equivalents at end of the year</b>	<u>9,799,876</u>	<u>74,970,976</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Bank balances	<u>9,799,876</u>	<u>74,970,976</u>
		<u>34,644,764</u>

**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
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**NOTES TO FINANCIAL STATEMENTS**

**1. THE TRUST AND THE SUB-FUNDS**

Guotai Junan Investment Funds (the "Trust"), is a unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a Trust Deed dated 29 August 2007 (the "Trust Deed") and supplemental deed dated 31 October 2016 between Guotai Junan Assets (Asia) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"). The Trust will continue for a period of 100 years from the date of the Trust Deed or until it is terminated by the Manager or the Trustee. The Trust was originally constituted as an umbrella unit trust established under the laws of Cayman Islands and was registered with Cayman Island Monetary Authority on 3 September 2007. Pursuant to a Deed of Retirement and Appointment of Trustee dated 26 October 2016, the Trust was removed from the jurisdiction of the Cayman Islands to the jurisdiction of the Hong Kong Special Administrative Region and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited effective 18 November 2016. The Trust currently consists of two sub-funds which are Guotai Junan Greater China Growth Fund and Guotai Junan Equity Income Fund (collectively the "Sub-Funds") which has been authorised by the Hong Kong Securities and Future Commission (the "SFC").

The Sub-Funds are established as separate and distinct trusts pursuant their respective supplemental trust deed to the Trust Deed. Accordingly, the assets of each Sub-Fund should be effectively segregated from each other and none of them may be used to discharge the liabilities of or claims against any other Sub-Fund.

Authorisation by the SFC does not imply official approval or recommendation.

The investment objectives of the Sub-Funds are as follows:

- Guotai Junan Greater China Growth Fund ("GJGC")

The Guotai Junan Greater China Growth Fund seeks to provide investors with medium to long term capital appreciation over time.

- Guotai Junan Equity Income Fund ("GJEI")

The Guotai Junan Equity Income Fund seeks to provide capital appreciation to investors by investing in high yielding equity securities of companies established in Greater China or which derive a majority of their revenue from business related to Greater China, whether in the form of direct investment in, or trade with, Greater China. This includes companies incorporated and/or listed outside Greater China. GJEI will not invest in or have any exposure to Shanghai and Shenzhen listed "A" shares.

**2.1 BASIS OF PREPARATION**

The financial statements of GJGC and GJEI have been prepared on the basis of the relevant disclosure provisions of the Trust Deed, the relevant disclosure provisions as set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds established by the SFC (the "SFC Code") and Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost basis, except for investments which have been measured at fair value.

The financial statements of GJGC and GJEI are presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest dollar, except where otherwise indicated.

**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
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**NOTES TO FINANCIAL STATEMENTS**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Sub-Funds have adopted the following revised HKFRSs for the first time for the current year's financial statements, which is applicable to the Sub-Funds.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customer</i>

The nature and the impact of the amendments are described below:

**HKFRS 9 *Financial Instruments***

The Sub-Funds adopted HKFRS 9 *Financial Instruments* on its effective date of 1 January 2018. HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classification and measurement, impairment and hedge accounting. HKFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

**(a) Classification and measurement**

The Sub-Funds have assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- (i) All financial assets previously held at fair value continue to be measured at fair value.
- (ii) Equity instruments are acquired for the purpose of generating short-term profit. Therefore, they meet the held-for-trading criteria and are required to be measured at fair value through profit or loss (FVPL).
- (iii) The classification of financial liabilities under HKFRS 9 remains broadly the same as under HKAS 39. The main impact on measurement from the classification of liabilities under HKFRS 9 relates to the element of gains or losses for financial liabilities designated as at FVPL attributable to changes in credit risk. HKFRS 9 requires that such element be recognised in other comprehensive income (OCI), unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss. The Sub-Funds have not designated any financial liabilities at FVPL. Therefore, this requirement has not had an impact on the Sub-Funds.

**(b) Impairment**

HKFRS 9 requires the Sub-Funds to record expected credit losses (ECLs) on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the fund to credit risk, this amendment has not had a material impact on the financial statements. The Sub-Funds only hold trade receivables with no financing component and that have maturities of less than 12 months at amortised cost and therefore have adopted an approach similar to the simplified approach to ECLs.

**(c) Hedge accounting**

The Sub-Funds have not applied hedge accounting under HKAS 39 nor will it apply hedge accounting under HKFRS 9.

**Impact of adoption of HKFRS 9**

The classification and measurement requirements of HKFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018, however, the Sub-Funds have chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under HKAS 39. The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Sub-Funds' financial assets and financial liabilities as at 1 January 2018.

**GUOTAI JUNAN INVESTMENT FUNDS**  
- GUOTAI JUNAN GREATER CHINA GROWTH FUND  
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**NOTES TO FINANCIAL STATEMENTS**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 *Financial Instruments* (continued)  
**Impact of adoption of HKFRS 9** (continued)

**GJGC**

Financial assets

1 January 2018	HKAS 39 classification	HKAS 39 measurement HK\$	HKFRS 9 classification	HKFRS 9 measurement HK\$
Financial assets at FVPL	Held for trading at FVPL	74,250,782	FVPL	74,250,782
Interest receivables	Loans and receivables	6	Amortised cost	6
Cash and bank balances	Loans and receivables	2,314,005	Amortised cost	2,314,005

Financial liabilities

1 January 2018	HKAS 39 classification	HKAS 39 measurement HK\$	HKFRS 9 classification	HKFRS 9 measurement HK\$
Other payables and accruals	Other financial liabilities	423,713	Amortised cost	423,713
Due to brokers	Other financial liabilities	698,044	Amortised cost	698,044

**GJEI**

Financial assets

1 January 2018	HKAS 39 classification	HKAS 39 measurement HK\$	HKFRS 9 classification	HKFRS 9 measurement HK\$
Financial assets at FVPL	Held for trading at FVPL	336,489,755	FVPL	336,489,755
Dividend receivables	Loans and receivables	98,613	Amortised cost	98,613
Due from brokers	Loans and receivables	25,727,092	Amortised cost	25,727,092
Interest receivables	Loans and receivables	32	Amortised cost	32
Cash and bank balances	Loans and receivables	34,644,764	Amortised cost	34,644,764

Financial liabilities

1 January 2018	HKAS 39 classification	HKAS 39 measurement HK\$	HKFRS 9 classification	HKFRS 9 measurement HK\$
Other payables and accruals	Other financial liabilities	786,254	Amortised cost	786,254
Due to brokers	Other financial liabilities	31,434,239	Amortised cost	31,434,239

In line with the characteristics of the Sub-Funds' financial instruments as well as its approach to their management, the Sub-Funds neither revoked nor made any new designations on the date of initial application. HKFRS 9 has not resulted in changes in the carrying amount of the Sub-Funds' financial instruments due to changes in measurement categories. All financial assets that were classified as FVPL under HKAS 39 are still classified as FVPL under HKFRS 9. All financial assets that were classified as loans and receivables and measured at amortised cost continue to be.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

HKFRS 9 *Financial Instruments* (continued)

**Impact of adoption of HKFRS 9 (continued)**

In addition, the application of the ECL mode under HKFRS 9 has not significantly changed the carrying amounts of the Sub-Funds' amortised cost financial assets. No ECL allowance has been recorded against the Sub-Funds' trade receivables compared to no impairment recorded under HKAS 39.

The carrying amounts of amortised cost instruments continued to approximate these instruments' fair values on the date of transition after transitioning to HKFRS 9.

HKFRS 15 *Revenue from contracts with customers*

The Sub-Funds adopted HKFRS 15 *Revenue from contracts with customers* on its effective date of 1 January 2018. HKFRS 15 replaces HKAS 18 *Revenue* and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from HKAS 18 to HKFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting HKFRS 15 for the Sub-Funds.

**2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

The Sub-Funds have not applied the following new and revised HKFRSs that has been issued but is not yet effective in these financial statements.

Amendments to HKFRS 9	<i>Financial Instruments: Prepayment Features with Negative Compensation</i> <sup>1</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020

Amendments to HKFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

The amendments to HKFRS 9 were issued in November 2017 and clarify that financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of the contract can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss. The Company expects to adopt the amendments on 1 January 2019. The Company does not expect the amendments to have any significant impact on the financial position or performance of the Company upon adoption.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Effective for annual periods beginning on or after 1 January 2019, the Sub-Funds expect to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Sub-Funds' financial statements.



## GUOTAI JUNAN INVESTMENT FUNDS

-GUOTAI JUNAN GREATER CHINA GROWTH FUND

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FOR THE YEAR ENDED 31 DECEMBER 2018

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

In the current period, the Sub-Funds have adopted HKFRS 9 *Financial Instruments*. See section 2(b) for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement*.

#### (i) *Classification – Policy effective from 1 January 2018 (HKFRS 9)*

In accordance with HKFRS 9, the Sub-Funds classify their financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- (b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) *It is a derivative* (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

#### *Financial assets*

The Sub-Funds classify their financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Sub-Funds' business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

#### *Financial assets measured at amortised cost*

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Sub-Funds include in this category short-term non-financing receivables including cash and cash equivalents, interest receivables, dividend receivable and amount due from brokers.

#### *Financial assets measured at FVPL*

A financial asset is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely collections of principal and interest ("SPPI") on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Funds include in this category:

- Equity instruments. These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) *Classification – Policy effective from 1 January 2018 (HKFRS 9)* (continued)

***Financial liabilities***

The Sub-Funds classify their financial liabilities as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Sub-Funds' business model for managing the financial liabilities
- The contractual cash flow characteristics of the financial liabilities

***Financial liabilities measured at amortised cost***

This category includes all financial liabilities, other than those measured at FVPL. The Sub-Funds include in this category other payables and accruals, redemption payable and amount due to brokers.

***Financial liabilities measured at fair value through profit or loss ("FVPL")***

A financial liability is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to pay contractual cash flows, or to both pay contractual cash flows and purchase; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Funds include in this category:

- Instruments held for trading. This category includes future contracts derivative contracts in an asset position which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

(i) *Classification – Policy effective before 1 January 2018 (HKAS 39)*

The Sub-Funds classify their financial assets and financial liabilities at initial recognition into the following categories, in accordance with HKAS 39.

***Financial assets held for trading:***

Financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes equities securities. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Funds include in this category amounts relating to due from brokers and short-term receivables.

***Other financial liabilities***

This category includes all financial liabilities, other than those classified as fair value through profit or loss. The Sub-Funds include in this category amounts relating to due to broker and short-term payables.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) **Recognition**

The Sub-Funds recognise a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Sub-Funds commit to purchase or sell the asset.

(iii) **Initial measurement**

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Sub-Funds recognise the difference in profit or loss, unless specified otherwise.

(iv) **Subsequent measurement**

After initial measurement, the Sub-Funds measure financial instruments which are classified as fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net unrealised gain/loss on investments. Net realised gain/loss on disposals of financial instruments classified as "fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount.

Interest earned, and dividend revenue elements of such instruments are recorded separately in profit or loss.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Sub-Funds estimate cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.



**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

- (iv) ***Derecognition*** (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where (i) the rights to receive cash flows from the asset have expired or (ii) the Sub-Funds have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:

- (a) the Sub-Funds have transferred substantially all the risks and rewards of the asset; or
- (b) the Sub Funds have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Sub-Funds have transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Funds' continuing involvement in the asset. In that case, the fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Funds have retained. The Sub-Funds derecognise a financial liability when the obligation under the liability is discharged, cancelled or expired.

- (v) ***Offsetting of financial instruments***

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

The Sub-Funds measure its investments in financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Sub-Funds.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Impairment of financial assets

*Policy effective from 1 January 2018 (HKFRS 9)*

The Sub-Funds hold only short-term receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, have chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under HKFRS 9 to all its short-term receivables. Therefore, the Sub-Funds do not track changes in credit risk, but instead, recognise a loss allowance based on lifetime ECLs at each reporting date.

The Sub-Funds' approach to ECLs reflect a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Sub-Funds use the provision matrix as a practical expedient to measure ECLs on short-term receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

*Policy effective before 1 January 2018 (HKAS 39)*

The Sub-Funds assess at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Funds. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to profit or loss.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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**NOTES TO FINANCIAL STATEMENTS**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits, short term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments using the effective interest method.

Dividend income

Dividend income is recognised when the Sub-Funds' right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in profit or loss.

Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as fair value through profit or loss are included in the statement of comprehensive income as part of net unrealised gain or loss on investments. Foreign exchange differences on other financial instruments are included in profit or loss in the statement of comprehensive income as foreign exchange differences, net.

Redeemable units

*Classification of redeemable units*

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Sub-Funds' net assets in the event of the Sub-Funds' liquidation.
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments.
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Sub-Funds' net assets.
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Funds over the life of the instrument.



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**NOTES TO FINANCIAL STATEMENTS**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Redeemable units (continued)

In addition to the redeemable units having all the above features, the Sub-Funds must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Funds.
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Sub-Funds continuously assess the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Sub-Funds will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Sub-Funds will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. Upon issuance of units, the consideration received is included in equity. Transaction costs incurred by the Sub-Funds in issuing or acquiring its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Own equity instruments that are reacquired are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs. The Sub-Funds' policy is not to keep shares in treasury, but rather to cancel them once repurchased. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issuance or cancellation of the Sub-Funds' own equity instruments.

Related parties

A party is considered to be related to the Sub-Funds if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Sub-Funds;
  - (ii) has significant influence over the Sub-Funds; or
  - (iii) is a member of the key management personnel of the Sub-Funds or of a parent of the Sub-Funds;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Sub-Funds are members of the same Sub-Funds;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Sub-Funds are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-Funds or an entity related to the Sub-Funds;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Sub-Funds or to the parent of the Sub-Funds.

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**NOTES TO FINANCIAL STATEMENTS**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income taxes

The Sub-Funds are exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Funds present the withholding tax separately from the gross investment income in profit or loss. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

Distribution to unitholders

The Sub-Funds recognises a liability to make cash distributions or non-cash distributions to unitholders when the distribution is authorised. The Manager may at its discretion make a cash distribution in Hong Kong Dollars or US Dollars on a semi-annual basis to unitholders. A corresponding amount is recognised directly in equity. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss.

**2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Sub-Funds' financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

*Fair value of financial instruments*

When the fair value of financial instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and discount rates.

*Functional currency*

The Sub-Funds' functional currency is the HK\$, which is the currency of the primary economic environment in which it operates. The Sub-Funds' performance is evaluated, and its liquidity is managed in HK\$. Therefore, the HK\$ is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The presentation currency of GJGC and GJEI are in HK\$.

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**NOTES TO FINANCIAL STATEMENTS**

**3. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS**

The following is a summary of transactions entered into during the year between the Sub-Funds and its connected persons. Connected persons of the Sub-Funds are those as defined in the Code. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

Manager's and its affiliates' holdings in the Sub-Funds

The Manager may transact in the units of the Sub-Funds as principal provided that prior written notice is obtained from the Trustee.

Details of units of the Sub-Funds held by the Manager's affiliates are as below:

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Units of the Sub-Funds	<u>78,004</u>	<u>212,192</u>	<u>3,628,512</u>	<u>2,858,452</u>

Management fee

The Manager is entitled to receive a management fee at 1.5% of the net asset value of GJGC and GJEI, respectively, per annum. The management fee is calculated and accrued as at each valuation day and payable monthly in arrears. As at 31 December 2018 for GJGC and GJEI, management fee of HK\$76,801 (2017: HK\$106,284) for GJGC, and HK\$498,965 (2017: HK\$468,567) for GJEI were payable to the Manager at the end of the reporting period which is included within other payables and accruals in the statement of financial position.

Trustee fee

For GJGC, the Trustee is entitled to receive from GJGC, an annual fee at a sliding scale with a maximum rate of 0.14% per annum of the net asset value of GJGC as at the relevant valuation point subject to a minimum monthly fee of HK\$39,000 in relation to GJGC. This fee is calculated and accrued on each valuation day and paid monthly in arrears. As at 31 December 2018, HK\$39,000 (2017: HK\$39,000) was payable to the Trustee at the end of the reporting period which is included within other payables and accruals in the statement of financial position.

For GJEI, the Trustee is entitled to receive from GJEI, an annual fee at a sliding scale with a maximum rate of 0.14% per annum of the net asset value of GJEI as at the relevant valuation point subject to a minimum monthly fee of HK\$39,000 in relation to GJEI. This fee is calculated and accrued on each valuation day and paid monthly in arrears. As at 31 December 2018, HK\$39,174 (2017: HK\$39,000) was payable to the Trustee at the end of the reporting period which is included within other payables and accruals in the statement of financial position.

For the Sub-Funds, the Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

3. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS (continued)

Registrar fee

The Trustee is also entitled to receive a fee for services in its capacity as Registrar at a fixed amount of HK\$40,000 per annum for the first 100 investors wherein HK\$780 per annum per investor thereafter for GJGC and GJEI. Such fee may vary depending on the number of holders of redeemable units in the Sub-Funds and is calculated and paid monthly in arrears to the Trustee. There is no maximum amount applicable to the registrar fees. As at 31 December 2018 for GJGC and GJEI, a registrar fee of HK\$3,592 (2017: HK\$3,397) for GJGC, and HK\$3,397 (2017: HK\$3,397) for GJEI were payable to the Registrar at the end of reporting period which is included within other payables and accruals in the statement of financial position.

Further, the Trustee may appoint sub-custodians to safe-keep the assets of the Sub-Funds outside the PRC. All sub-custodian fees will be charged to the Sub-Funds and are calculated and paid monthly in arrears, in addition, to, any fees and expenses payable to the Trustee. The sub-custodian is entitled to recover all out-of-pocket expenses incurred in the performance of its duties in connection with the relevant Sub-Funds.

Brokerage and handling fees

Guotai Junan Securities (Hong Kong) Limited ("GJS"), the fellow subsidiary of the Manager, charged the Sub-Funds a brokerage and handling fee at a fixed rate of 1% for each initial public offering subscription and 0.18% for each listed securities transaction which was changed to 0.15% effective 15 May 2015. During the year ended 31 December 2018 for GJGC and GJEI, included in the brokerage and handling fees in the statement of profit or loss and other comprehensive income were HK\$44,252 (2017: HK\$47,824) for GJGC, and HK\$416,464 (2017: HK\$265,468) for GJEI, charged by GJS. No balances in relation to the brokerage and handling fee were payable by the Sub-Funds to GJS as at 31 December 2018 for GJGC and GJEI, and as at 31 December 2017 for the Sub-Funds.

Bank balances

Bank balances are maintained with the Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), Hong Kong Branch, an affiliate of the Trustee. All bank balances were deposited with affiliate of the Trustee as at 31 December 2018 for GJGC and GJEI, and as at 31 December 2017 for the Sub-Funds.

4. TAX

The Sub-Funds of the Trust are exempt from Hong Kong profits tax on income arising from its authorised activities under Section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

The Trust obtained an undertaking from the Governor-in-Council of the Cayman Islands on 18 September 2007 that, in accordance with Section 81 of the Trust Law (2001 Revision) of the Cayman Islands, for a period of 50 years from the date of creation of the Trust, no laws of the Cayman Islands thereafter enacted imposing any tax or duty to be levied on income or on capital assets, gains or appreciation or any tax in the nature of estate duty or inheritance tax shall apply to any property comprised in or any income arising under the Trust, or the Sub-Funds or the Trustee or the holders of redeemable units in respect of any property or income. Effective 18 November 2016, the Trust has changed its jurisdiction from Cayman Islands to Hong Kong.

Dividend income is subject to withholding tax in certain jurisdictions and is the only item subject to taxation at an average applicable withholding tax rate of 10% (2017: 10%) in such jurisdictions for GJGC and GJEI.



## NOTES TO FINANCIAL STATEMENTS

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018 HK\$	31 December 2017 HK\$	31 December 2018 HK\$	31 December 2017 HK\$
Financial assets at FVPL:				
Listed equity securities, at cost	44,885,391	59,324,202	290,219,905	283,700,147
Unrealised (loss)/gain	( 827,132)	14,926,580	( 6,618,474)	52,789,608
Unrealised gain on share price index futures -HSCEI Index January 2019 Futures	-	-	4,400	-
Total financial assets at FVPL	44,058,259	74,250,782	283,605,831	336,489,755

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018 HK\$	31 December 2017 HK\$	31 December 2018 HK\$	31 December 2017 HK\$
Financial liabilities at FVPL:				
Unrealised loss on share price index futures				
-Hang Seng Index January 2019 Futures	-	-	(26,200)	-
Total financial liabilities at FVPL	-	-	(26,200)	-

When fair values of publicly traded equity securities and derivatives are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy.

On 31 December 2012, one listed equity held by GJGC were suspended from trading and was reclassified from Level 1 to Level 3. The listed suspended equity was written down to nil on 31 December 2012. Another listed equity held by GJGC, which were suspended from trading since 27 March 2015 was classified in Level 3 as its carrying amount of HK\$1,040,000 was valued at last trade price before suspension less a liquidating discount as determined by the Manager. As at 31 December 2018, the Manager considered that due to its lengthy suspension of trading, involvement in the litigation initiated by one of its substantial shareholders, continuous dealing with the forensic accountant for the forensic investigation and failure to provide audited annual reports for consecutive 3 years since 2014, so the Manager considered that the possibility to resume trading is remote. The fair value of this listed equity has been written down to nil during the year.



# **GUOTAI JUNAN INVESTMENT FUNDS**

-GUOTAI JUNAN GREATER CHINA GROWTH FUND

-GUOTAI JUNAN EQUITY INCOME FUND

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## **NOTES TO FINANCIAL STATEMENTS**

### 5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

*Valuation techniques (continued)*

*Unlisted investment in equity securities (continued)*

The following table analyses within the fair value hierarchy the Sub-Funds' financial assets measured at fair value at 31 December.

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	HK\$	HK\$	HK\$	HK\$
Quoted prices in active markets (Level 1)	44,058,259	74,250,782	283,605,831	336,489,755
Significant observable inputs (Level 2)	-	-	-	-
Significant unobservable inputs (Level 3)	-	-	-	-
At the end of year	<u>44,058,259</u>	<u>74,250,782</u>	<u>283,605,831</u>	<u>336,489,755</u>

The following table analyses within the fair value hierarchy the Sub-Funds' financial liabilities measured at fair value at 31 December.

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	HK\$	HK\$	HK\$	HK\$
Quoted prices in active markets (Level 1)	-	-	(26,200)	-
Significant observable inputs (Level 2)	-	-	-	-
Significant unobservable inputs (Level 3)	-	-	-	-
At the end of year	<u>-</u>	<u>-</u>	<u>(26,200)</u>	<u>-</u>

As at 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	HK\$	HK\$	HK\$	HK\$
Financial assets at FVPL:				
At beginning of the year	-	1,040,000	-	-
Total losses recognised in profit or loss	-	(1,040,000)	-	-
At the end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**NOTES TO FINANCIAL STATEMENTS**

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS  
(continued)

Sensitivity analysis to significant changes in unobservable inputs – Level 3

As at 31 December 2018 and 2017, the listed suspended equities have been written down to nil.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with the quantitative sensitivity analysis as at 31 December 2018 are shown below:

As at 31 December 2018 and 2017

Description	Valuation Technique	Unobservable Inputs	Range	Sensitivity of fair value to the input
Suspended equity securities	N/A	N/A	N/A	N/A

6. CASH AND BANK BALANCES

The cash at bank was held with HSBC in interest bearing accounts as at the reporting dates.

7. DISTRIBUTIONS

	Guotai Junan Equity Income Fund	
	31 December 2018	31 December 2017
	HK\$	HK\$
Interim distribution (HK\$3.88 distributed on 3 July 2017)	-	11,280,973
Final distribution (HK\$4.84 distributed on 3 Jan 2018)	13,854,656	-
Interim distribution (HK\$4.28 distributed on 3 July 2018)	12,848,224	-
	<u>26,702,880</u>	<u>11,280,973</u>

No distribution has been declared on behalf of GJGC during the years ended 31 December 2018 and 31 December 2017.

8. CAPITAL

As at 31 December 2018 and 2017 for GJGC and GJEI, each Sub-Fund only has one single class of units in issue, being redeemable participating units. The redeemable participating units do not carry any voting rights. They carry the right to receive distributions and the rights to participate in the surplus assets of the Sub-Funds after the payment of all creditors upon liquidation of the Sub-Funds.

Redeemable participating units can be issued and redeemed on each valuation day, i.e. every business day of the calendar year. The holders of redeemable participating unit may redeem the redeemable participating units on any valuation day by no later than the dealing deadline, i.e. no later than the business hours of the business day of the calendar year. Redemption requests received after such time will be deemed to have been received on the next business day.

**GUOTAI JUNAN INVESTMENT FUNDS**  
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**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTES TO FINANCIAL STATEMENTS**

8. CAPITAL (continued)

The calculation of the net asset value per unit of the Sub-Funds is based on the net asset of the Sub-Funds as at 31 December and the number of units in issue as at that date.

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018 HK\$	31 December 2017 HK\$	31 December 2018 HK\$	31 December 2017 HK\$
Net Assets	<u>58,919,591</u>	<u>75,443,036</u>	<u>384,209,612</u>	<u>364,739,763</u>

Movement in the number of participating units issued and fully paid:

	Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
	31 December 2018 HK\$	31 December 2017 HK\$	31 December 2018 HK\$	31 December 2017 HK\$
Number of participating units:				
At beginning of the year	809,075.14	1,132,470.60	2,862,532.33	2,860,640.98
Issued during the year	183,665.76	-	3,626,620.85	48,476.64
Redeemed during the year	( 237,678.08)	( 323,395.46)	(2,856,560.49)	( 46,585.29)
At the end of year	<u>755,062.82</u>	<u>809,075.14</u>	<u>3,632,592.69</u>	<u>2,862,532.33</u>

9. SOFT COMMISSION ARRANGEMENTS

Neither the Manager nor any of its connected persons has entered into any soft commission arrangements with brokers or dealers in respect of the transactions for the account of the Sub-Funds of the Trust.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Sub-Funds are subject to various risks as the Sub-Funds invested in a number of financial instruments including listed equity securities and derivatives during the year.

The investment objective, strategy and restrictions apply to any investment at the time that investment is made. The Manager will be responsible for ensuring compliance at all times with the investment policies. Where any policy is breached, the Manager will ensure that immediate corrective action will be taken, except where the breach is due to appreciation or depreciation in the value of investments.

The Manager will also be managing the assets of the three Sub-Funds and will minimise risk by applying a combination of bottom-up and top-down approaches including macroeconomic, industrial and company specific analysis so as to develop a high-quality investment portfolio. For GJGC and GJEI, the two Sub-Funds invest substantially all of its assets in Hong Kong listed "H" shares, "Red Chips", Shanghai and Shenzhen listed "B" shares and are broadly diversified with numerous exchange traded investments.

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**NOTES TO FINANCIAL STATEMENTS**

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Sub-Funds are exposed to market risk on its investments. The Sub-Funds minimise its exposure to market risk by diversifying its listed investments broadly and monitoring its investments constantly on a real time basis by a team of fund managers.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Sub-Funds are exposed to interest rate risk as all of its cash and bank balances are placed in interest bearing accounts.

The Manager is responsible for monitoring and managing the interest rate exposure of the Sub-Funds. Financial assets of GJGC and GJEI are predominately equity securities, which are interest free while the interest rate risks of the Sub-Funds are mainly attributable to interest bearing bank deposits. Accordingly, the Manager considers that exposures of GJGC and GJEI to interest rate risk were minimal.

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Such risk exposures arise from trading in securities in currencies other than the Sub-Funds' functional currencies. Fluctuations in exchange rates between the HK\$ and US\$ may affect its financial condition and results of operations, whereas the Manager considers the US\$/HK\$ exposure is minimal as HK\$ is pegged to US\$. Also GJGC and GJEI do not expose to significant currency risk as majority of its operations and transactions are in HK\$ and denominated in HK\$.

*Equity price risk*

Equity price risk is the risk of unfavorable changes in the fair values of equities as a result of changes in the level of equity indices and the value of individual shares. The trading equity price risk exposure arises from the Sub-Funds' investment portfolio.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in Hang Seng Index ("HSI"), with all other variables held constant, of the Sub-Funds' profit and net assets attributable to holders of redeemable units.

		Guotai Junan Greater China Growth Fund		Guotai Junan Equity Income Fund	
		2018	2017	2018	2017
		HK\$	HK\$	HK\$	HK\$
HSI	+/-5%	<u>2,204,000</u>	<u>4,404,000</u>	<u>12,309,000</u>	<u>17,763,000</u>

This analysis is based on the assumption that all the equity instruments move according to the historical correlation with the HSI and with all other variables held constant. In practice, the actual results may differ, and the difference could be material.

**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
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**NOTES TO FINANCIAL STATEMENTS**

**10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(b) Liquidity risk**

Liquidity risk is the risk that the Sub-Funds will encounter difficulty in meeting obligation associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

As described in note 8 to the financial statements, the Sub-Funds are subject to cash redemptions of its redeemable units on every business day during the calendar year. The Sub-Funds consider that its exposure to liquidity risk is minimal as most of its investments are listed and actively traded.

The contractual undiscounted cash flows of the financial liabilities as at 31 December 2018 for GJGC and GJEI are the same as their carrying amounts of HK\$933,231 (2017: HK\$1,121,757) and HK\$23,134,410 (2017: HK\$32,220,493), respectively, as they are repayable less than three months.

**(c) Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Sub-Funds by failing to discharge an obligation. The Sub-Funds minimise exposure to credit risk by only dealing with counterparties with high credit ratings.

GJGC and GJEI are mainly exposed to credit risk on its investments placed with the brokers and amounts due from brokers. The Manager monitors the credit risk by monitoring the credit quality of brokers on a regular basis. If the credit quality or the financial position of brokers deteriorates significantly the Manager will deal with other providers. In addition, substantially all of the bank deposits of the Sub-Funds are held by the reputable financial institutions located in Hong Kong.

The Sub-Funds' maximum exposure to credit risk in the event of counterparties failing to perform their obligations as of the end of the reporting period in relation to each class of recognised financial assets approximates to the carrying amount of those assets as indicated in the statement of financial position. The Sub-Funds adopt the method of deliver-against-payment in the settlement of all its transactions. This arrangement is effectively avoiding the counterparty risk from brokers.

Credit risk disclosures are segmented into two sections based on whether the underlying financial investment is subject to HKFRS 9's impairment disclosure or not.

**Financial assets subject to HKFRS 9's impairment requirements**

GJGC's financial assets subject to the ECL model within HKFRS 9 are interest receivables, due from brokers and cash and bank balance. At 31 December 2018, the total of interest receivables, due from brokers and cash and bank balance was HK\$15,794,563 on which no loss allowance had been provided (2017: total HK\$2,314,011 on which no loss had been incurred).

GJEI's financial assets subject to the ECL model within HKFRS 9 are dividend receivables, due from brokers, interest receivables and cash and bank balance. At 31 December 2018, the total of dividend receivables, due from brokers, interest receivables and cash and bank balance were HK\$123,738,191 on which no loss allowance had been provided (2017: total HK\$60,470,501 on which no loss had been incurred).

There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.



**GUOTAI JUNAN INVESTMENT FUNDS**  
-GUOTAI JUNAN GREATER CHINA GROWTH FUND  
-GUOTAI JUNAN EQUITY INCOME FUND  
FOR THE YEAR ENDED 31 DECEMBER 2018

**NOTES TO FINANCIAL STATEMENTS**

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

**Financial assets subject to HKFRS 9's impairment requirements (continued)**

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: cash at bank and dividend receivables. All the Sub-Funds' cash at bank are held in major financial institutions located in Hong Kong, which the Investment Manager believes is of high credit quality. The Investment Manager considers the Sub-Funds are not exposed to significant credit risk and no loss allowance has been made

**Financial assets not subject to HKFRS 9's impairment requirements**

The Sub-Funds are exposed to credit risk on financial assets at fair value through profit or loss. These classes of financial assets are not subject to HKFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under both HKAS 39 (2017) and HKFRS 9 (2018) represents the Sub-Funds' maximum exposure to credit risk on financial instruments not subject to the HKFRS 9 impairment requirements on the respective reporting dates.

(d) Capital management

The primary objective of the Sub-Funds' capital management is to safeguard the Sub-Funds' ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise holders of redeemable units' value.

The Sub-Funds manage its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristic of the financial assets. To maintain or adjust the capital structure, the Sub-Funds may adjust the investments held.

The Sub-Funds define capital as the net assets attributable to holders of redeemable units. The Manager believes it has mitigated the risks to capital by following the investment guideline.

11. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2019, the Manager declared on behalf of GJEI to distribute final distribution of HK\$9,626,371 at HK\$2.65 each unit on ex-dividend date 3 January 2019, in respect of 3,632,592.69 units issued on that date. The final distribution was paid on 8 January 2019.

12. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on **29 APR 2019**.

**GUOTAI JUNAN INVESTMENT FUNDS**  
- GUOTAI JUNAN GREATER CHINA GROWTH FUND  
- GUOTAI JUNAN EQUITY INCOME FUND  
FOR THE YEAR ENDED 31 DECEMBER 2018

**UNAUDITED STATEMENTS OF MOVEMENTS IN INVESTMENT PORTFOLIO**

**A. GUOTAI JUNAN GREATER CHINA GROWTH FUND**

	<b>% of Net Assets</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Equity</b>		
- Hong Kong	73.77	86.80
- United States	0.98	11.63
	<u>74.75</u>	<u>98.43</u>

**B. GUOTAI JUNAN EQUITY INCOME FUND**

	<b>% of Net Assets</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Equity</b>		
- Hong Kong	72.65	89.21
- United States	1.17	3.07
<b>Futures Commodities</b>		
- Hong Kong	(0.01)	-
	<u>73.81</u>	<u>92.28</u>



**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**UNAUDITED INVESTMENT PORTFOLIO**

**GUOTAI JUNAN GREATER CHINA GROWTH FUND**

**Investment Portfolio as at 31 Dec 2018**

<b>Listed Investment Equities</b>	<b>Holdings</b>	<b>Market Value (HKD)</b>	<b>% of Net Assets</b>
<b>HONG KONG</b>			
AGILE PROPERTY HOLDINGS LTD	100,000	921,000	1.56
ANHUI CONCH CEMENT CO LTD-H	50,000	1,900,000	3.22
BOC AVIATION LTD	50,000	2,897,500	4.92
BOC HONG KONG HOLDINGS LTD	50,000	1,455,000	2.47
BOSHIWA INTERNATIONAL HOLDING <sup>1</sup>	690,000	-	-
CHINA ANIMAL HEALTHCARE LTD <sup>2</sup>	400,000	-	-
CHINA AOYUAN GROUP LIMITED	100,000	497,000	0.84
CHINA CONSTRUCTION BANK CORPORATION	200,000	1,292,000	2.19
CHINA MENGNIU DAIRY CO. LTD.	30,000	732,000	1.24
CHINA MERCHANTS BANK CO. LTD	150,000	4,305,000	7.31
CHINA RAILWAY CONSTRUCTION CORPORATION	100,000	1,086,000	1.84
CHINA RAILWAY GROUP - H	300,000	2,139,000	3.63
CHINA RESOURCES CEMENT HOLDING	200,000	1,410,000	2.39
CHINA RESOURCES LAND LTD.	60,000	1,806,000	3.07
CHINA TAIPING INSURANCE HOLDING	78,086	1,678,849	2.85
CHINASOFT INTERNATIONAL LTD	200,000	778,000	1.32
CLP HOLDINGS LTD	40,000	3,540,000	6.01
GUANGDONG INVESTMENTS LTD	50,000	757,000	1.28
HONG KONG & CHINA GAS CO	150,000	2,430,000	4.12
HONG KONG EXCHANGES AND CLEARING	5,000	1,133,000	1.92

<sup>1</sup> Trading for these securities was suspended since 15 March 2012. The security was written-down to nil.

<sup>2</sup> Trading for these securities was suspended since 30 March 2015. The security was written-down to nil.

**GUOTAI JUNAN INVESTMENT FUNDS**  
 -GUOTAI JUNAN GREATER CHINA GROWTH FUND  
 -GUOTAI JUNAN EQUITY INCOME FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2018

**UNAUDITED INVESTMENT PORTFOLIO** (continued)

**GUOTAI JUNAN GREATER CHINA GROWTH FUND** (continued)

**Investment Portfolio as at 31 Dec 2018**

<b>Listed Investment Equities</b>	<b>Holdings</b>	<b>Market Value (HKD)</b>	<b>% of Net Assets</b>
<b>HONG KONG</b>			
KUNLUN ENERGY COMPANY LIMITED	150,000	1,245,000	2.11
LENOVO GROUP LTD.	150,000	793,500	1.35
LINK REIT	30,000	2,379,000	4.04
MAANSHAN IRON & STEEL CO LTD	10,000	34,500	0.06
PACIFIC TEXTILES HOLDINGS LTD.	100,000	696,000	1.18
PING AN INSURANCE (GROUP) CO.	40,000	2,766,000	4.69
SINO BIOPHARMACEUTICAL LTD.	180,000	928,800	1.58
SINOPEC SHANGHAI PETROCHEMICAL	480,000	1,646,400	2.79
SUNNY OPTICAL TECHNOLOGY (GROUP)	1,000	69,600	0.12
TENCENT HOLDINGS LTD.	5,000	1,570,000	2.66
YUEXIU TRANSPORT INFRASTRUCTURE LTD	100,000	594,000	1.01
<b>UNITED STATES</b>			
TAIWAN SEMICONDUCTOR	2,000	578,110	0.98
<b>TOTAL INVESTMENT</b>		<b>44,058,259</b>	<b>74.75</b>
<b>TOTAL INVESTMENT, AT COST</b>		<b>44,885,391</b>	

**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**UNAUDITED INVESTMENT PORTFOLIO (continued)**

**GUOTAI JUNAN EQUITY INCOME FUND**

**Investment Portfolio as at 31 Dec 2018**

<b>Listed Investment Equities</b>	<b>Holdings</b>	<b>Market Value (HKD)</b>	<b>% of Net Assets</b>
<b>HONG KONG</b>			
AGILE PROPERTY HOLDINGS LTD	200,000	1,842,000	0.48
AIA GROUP LTD	75,000	4,875,000	1.27
ALUMINUM CORPORATION OF CHINA	872,000	2,197,440	0.57
ANHUI CONCH CEMENT CO LTD-H	64,000	2,432,000	0.63
AVICHINA INDUSTRY & TECNOLOGY	300,000	1,476,000	0.38
BANK OF CHINA LTD	1,000,000	3,380,000	0.88
BANK OF COMMUNICATIONS CO. LTD	500,000	3,055,000	0.80
BOC AVIATION LTD	140,000	8,113,000	2.11
BOC HONG KONG HOLDINGS LTD	500,000	14,550,000	3.79
CHAMPION REAL ESTATE INVESTMENT	1,050,000	5,628,000	1.46
CHINA COMMUNICATION SERVICE	600,000	3,888,000	1.01
CHINA CONSTRUCTION BANK	2,000,000	12,920,000	3.36
CHINA EVERGRANDE GROUP	12,000	281,400	0.07
CHINA LILANG LTD.	177,000	1,168,200	0.30
CHINA LITERATURE LTD	15,200	551,760	0.14
CHINA MERCHANTS BANK CO. LTD	800,000	22,960,000	5.98
CHINA MOLYBDENUM CO LTD	420,000	1,209,600	0.31
CHINA ORIENTAL GROUP CO LTD	600,000	2,796,000	0.73
CHINA PETROLEUM & CHEMICAL	1,600,000	8,944,000	2.33
CHINA RAILWAY CONSTRUCTION COR	800,000	8,688,000	2.26

**GUOTAI JUNAN INVESTMENT FUNDS**  
 -GUOTAI JUNAN GREATER CHINA GROWTH FUND  
 -GUOTAI JUNAN EQUITY INCOME FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2018

**UNAUDITED INVESTMENT PORTFOLIO** (continued)

**GUOTAI JUNAN EQUITY INCOME FUND** (continued)

**Investment Portfolio as at 31 Dec 2018**

Listed Investment Equities	Holdings	Market Value (HKD)	% of Net Assets
<b>HONG KONG</b>			
CHINA RAILWAY GROUP - H	1,500,000	10,695,000	2.78
CHINA RESOURCES CEMENT HOLDING	112,000	789,600	0.21
CHINA RESOURCES LAND LTD.	250,000	7,525,000	1.96
CHINA SHENHUA ENERGY CO. LTD.	50,000	858,000	0.22
CHINA TELECOM CORPORATION LTD.	500,000	2,000,000	0.52
CHINASOFT INTERNATIONAL LTD	200,000	778,000	0.20
CLP HOLDINGS LTD	250,000	22,125,000	5.76
CNOOC LTD	600,000	7,260,000	1.89
COUNTRY GARDEN SERVICES HOLDING	5,483	68,209	0.02
CRRC CORPORATION LTD-H SH	120,000	916,800	0.24
CSPC PHARMACEUTICAL GROUP LTD	560,000	6,328,000	1.65
FAR EAST HORIZON LTD.	200,000	1,580,000	0.41
GEELY AUTOMOBILE HOLDINGS LTD	100,000	1,380,000	0.36
GUANGDONG INVESTMENT LTD	200,000	3,028,000	0.79
HKT TRUST & HKT LTD	200,000	2,256,000	0.59
HONG KONG & CHINA GAS CO	500,000	8,100,000	2.11
JIANGSU EXPRESSWAY CO LTD	100,000	1,092,000	0.28
JNBY DESIGN LTD	4,000	43,920	0.01
KINGBOARD LAMINATES HOLDINGS LTD	50,000	323,000	0.08

**GUOTAI JUNAN INVESTMENT FUNDS**  
 -GUOTAI JUNAN GREATER CHINA GROWTH FUND  
 -GUOTAI JUNAN EQUITY INCOME FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2018

**UNAUDITED INVESTMENT PORTFOLIO (continued)**

**GUOTAI JUNAN EQUITY INCOME FUND (continued)**

**Investment Portfolio as at 31 Dec 2018**

<b>Listed Investment Equities</b>	<b>Holdings</b>	<b>Market Value (HKD)</b>	<b>% of Net Assets</b>
<b>HONG KONG</b>			
KUNLUN ENERGY COMPANY LIMITED	1,100,000	9,130,000	2.38
LENOVO GROUP LTD.	1,000,000	5,290,000	1.38
LINK REIT	200,000	15,860,000	4.13
LONKING HOLDINGS LTD	100,000	203,000	0.05
MAANSHAN IRON & STEEL CO LTD	1,000,000	3,450,000	0.90
NAGACORP LTD	232,000	1,953,440	0.51
NWS HOLDINGS LTD	188,048	3,020,051	0.79
PACIFIC TEXTILES HOLDINGS LTD.	500,000	3,480,000	0.91
PETROCHINA CO LTD	800,000	3,904,000	1.02
PING AN INSURANCE (GROUP) CO.	200,000	13,830,000	3.60
RED STAR MACALLINE GROUP	100,000	672,000	0.17
SHANDONG CHENMING PAPER	200,000	896,000	0.23
SHANDONG WEIGAO GROUP MEDICAL	300,000	1,902,000	0.50
SHANGHAI FOSUN PHARMACEUTICAL	26,000	598,000	0.16
SINO BIOPHARMACEUTICAL LTD.	800,000	4,128,000	1.07
SINOPEC SHANGHAI PETROCHEMICAL	1,200,000	4,116,000	1.07
SINOPHARM GROUP CO	80,000	2,632,000	0.69
SINOTRUK HONG KONG LTD	166,000	1,958,800	0.51
SMARTONE TELECOMMUNICATIONS	350,000	3,038,000	0.79
SSY GROUP	424,000	2,459,200	0.64
WUXI BIOLOGICS CAYMAN INC	50,000	2,507,500	0.65
XINYI GLASS HOLDINGS CO LTD	4,000	34,640	0.01
YANGTZE OPTICAL FIBRE AND CABLE	16,000	342,400	0.09
YUEXIU TRANSPORT INFRASTRUCTURE LTD	600,000	3,564,000	0.93
ZHEJIANG EXPRESSWAY CO LTD	300,000	2,037,000	0.53

**GUOTAI JUNAN INVESTMENT FUNDS**  
 -GUOTAI JUNAN GREATER CHINA GROWTH FUND  
 -GUOTAI JUNAN EQUITY INCOME FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2018

**UNAUDITED INVESTMENT PORTFOLIO** (continued)

**GUOTAI JUNAN EQUITY INCOME FUND** (continued)

**Investment Portfolio as at 31 Dec 2018**

<b>Listed Investment Equities</b>	<b>Holdings</b>	<b>Market Value (HKD)</b>	<b>% of Net Assets</b>
<b>UNITED STATES</b>			
BILIBILI INC	4,000	457,038	0.12
NVIDIA CORP	2,000	2,090,971	0.54
PFIZER INC	4,000	1,367,354	0.36
TAIWAN SEMICONDUCTOR MANUFACTURING	2,000	578,110	0.15
<b>Futures Commodities</b>			
Hang Seng Index JAN 2019 Futures	35	(26,200)	-0.01
HSCEI Index JAN 2019 Futures	1	4,400	0
<b>TOTAL INVESTMENT</b>		<b>283,579,631</b>	<b>73.81</b>
<b>TOTAL INVESTMENT, AT COST</b>		<b>290,219,905</b>	

**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**UNAUDITED PERFORMANCE RECORD**

**Net asset value**

	Guotai Junan Greater China Growth Fund HK\$	Guotai Junan Equity Income Fund HK\$
31 December 2018	<u>58,919,591</u>	<u>384,209,611</u>
31 December 2017	<u>75,443,036</u>	<u>364,739,763</u>
31 December 2016	<u>82,806,608</u>	<u>275,798,430</u>
31 December 2015	<u>103,947,419</u>	<u>45,712,960</u>
31 December 2014	<u>132,153,312</u>	<u>66,666,382</u>

**Net asset value per unit**

	Guotai Junan Greater China Growth Fund HK\$	Guotai Junan Equity Income Fund HK\$
31 December 2018	<u>78.03</u>	<u>105.77</u>
31 December 2017	<u>93.25</u>	<u>127.42</u>
31 December 2016	<u>73.12</u>	<u>96.41</u>
31 December 2015	<u>80.09</u>	<u>102.02</u>
31 December 2014	<u>86.08</u>	<u>110.18</u>



**GUOTAI JUNAN INVESTMENT FUNDS**  
**-GUOTAI JUNAN GREATER CHINA GROWTH FUND**  
**-GUOTAI JUNAN EQUITY INCOME FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**UNAUDITED PERFORMANCE RECORD (continued)**

**Published net asset value**

**Highest and lowest published net asset value per unit**

	Guotai Junan Greater China Growth Fund HK\$	Guotai Junan Equity Income Fund HK\$
<u>Financial year ended 31 December 2018</u>		
Highest published net asset value per unit	105.66	136.07
Lowest published net asset value per unit	<u>77.52</u>	<u>105.27</u>
<u>Financial year ended 31 December 2017</u>		
Highest published net asset value per unit	97.69	129.96
Lowest published net asset value per unit	<u>72.89</u>	<u>96.97</u>
<u>Financial year ended 31 December 2016</u>		
Highest published net asset value per unit	80.57	106.96
Lowest published net asset value per unit	<u>66.31</u>	<u>87.52</u>
<u>Financial year ended 31 December 2015</u>		
Highest published net asset value per unit	115.09	143.22
Lowest published net asset value per unit	<u>67.32</u>	<u>98.15</u>
<u>Financial year ended 31 December 2014</u>		
Highest published net asset value per unit	89.67	115.00
Lowest published net asset value per unit	<u>72.93</u>	<u>94.37</u>
<u>Financial year ended 31 December 2013</u>		
Highest published net asset value per unit	84.92	110.43
Lowest published net asset value per unit	<u>67.61</u>	<u>95.85</u>
<u>Financial year ended 31 December 2012</u>		
Highest published net asset value per unit	76.01	105.99
Lowest published net asset value per unit	<u>58.64</u>	<u>88.04</u>
<u>Financial year ended 31 December 2011</u>		
Highest published net asset value per unit	98.26	-
Lowest published net asset value per unit	<u>54.84</u>	<u>-</u>